



## EXECUTIVE CHAMBERS

HONOLULU

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GOVERNOR

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### EXECUTIVE MEMORANDUM

MEMO NO. 04-02

TO: All Department Heads

SUBJECT: FY 05 Budget Execution Policies and Instructions

The attached Budget Execution Policies and Instructions are provided to guide your implementation of program appropriations for FY 05.

The current general condition of Hawaii's economy is good as we continue to see steady improvements in all areas. However, the projected growth in tax revenues remains a concern. At the most recent meeting of May 26, 2004, the Council on Revenues retained its previous forecast of moderate general fund tax revenue growth for FY 04 and thereafter.

While moderate increases in revenues can be expected for the near future, projections of State expenditures show significant growth as a result of appropriations made in the 2004 Legislative Session, including funding for collective bargaining (CB) requirements. The current Financial Plan projects a general fund balance of over \$100 million at the end of FY 05. This positive balance, which is due largely to accumulated surpluses from previous years, will disappear as early as FY 06, forcing the State into a serious deficit position, if we do not begin to take corrective actions now.

The fact is that the State general fund annual budget has not been in balance in recent years. Since FY 02, general fund expenditures have been greater than general fund revenues, resulting in annual deficits that have continued to erode the once-prudent balance in the general fund. This structural imbalance in the State's general fund budget must be fixed.

Therefore, budget execution policies for FY 05 have been formulated under the following overall themes:

- Actions to reduce overall spending in FY 05 are the necessary first step in addressing the budget structural imbalance. Further spending reductions are to be expected for the upcoming FB 2005-07 as the State develops a plan to bring recurring expenses to the level supportable by recurring revenues.

- Utmost care and prudence must be exercised in all expenditure and hiring decisions. Every expenditure must compete for its priority in the State-spending plan relative to all other funding requirements of the State.

Specifically, FY 05 budget execution policies encompass the following:

- A 1% across-the-board efficiency savings restriction is imposed on all general fund discretionary expenses of all Executive departments and agencies, including the Department of Education and the University of Hawaii.
- Targeted restrictions are imposed on specific items or categories, as explained in the attachments.
- As in the past, 90% of general fund CB appropriations will be allotted.
- Unless specifically addressed, all other provisions of Executive Memorandum No. 03-09 (FY 04 Budget Execution Policies and Instructions) continue to be in force.

Exhibit 1 contains your department's FY 05 allocation and position ceilings from Act 200, SLH 2003 (the General Appropriations Act), as amended by Act 41, SLH 2004 (the Supplemental Appropriations Act); *certain appropriations contained in Senate Bill No. 1491* (2004 Legislative Session); and CB allocations, as applicable.

Attachments A and B contain executive expenditure policies, guidelines, and procedures for FY 05 budget execution to provide for prudent and efficient implementation of legislative intent.

I am confident that you will make the appropriate and responsible decisions in the spirit of this memorandum and with full understanding of the fiscal challenge that we face. Your hard work and continued dedication to public service are sincerely appreciated.

Questions on the specific policies and instructions should be directed to the Department of Budget and Finance or the appropriate agency referenced. Electronic files of appropriate forms will be provided for your use.

LINDA LINGLE

Exhibit 1

Attachment A; Forms A, B, C, C-Ia, and PAB

Attachment B; Samples 1, 2, 3, 4, 5, 6, and 7